

Possible impacts of Brexit on the UK and European energy sectors

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Brexit Developments

- What we know
 - Trigger Article 50 – March 29th
 - European Council discussion of UK's request to leave the EU - 29th April
 - 2 years to conclude negotiations – 18 months technical/political:6 months institutional
 - UK to leave the single market
 - End of the jurisdiction of the European Court of Justice
 - “We are considering all options for the UK's future relationship with the EU on energy” - White Paper
 - “We also propose a bold and ambitious Free Trade Agreement between the United Kingdom and the European Union. This should be of greater scope and ambition than any such agreement before it so that it covers sectors crucial to our linked economies such as financial services and network industries” PM letter to European Council
 - Brexit also mean Brexatom

Non-energy specific issues are important

- Currency exchange rates
 - May increase foreign investment (as UK assets and companies become cheaper), but imported equipment is relatively more expensive
- Standards
 - EU equipment standards are likely to still apply for UK manufacturing and imports.
- Supply chains
 - Special tariff and customs arrangement (free movement of parts) for UK manufacturing.
 - EFF: ‘must ensure unrestricted access to – not necessarily membership of – the EU’s single market’
- Staff and employment
 - ‘a new migration policy, which enables manufactures to access much needed skills’ (EFF)
- Investment Environment

Brexit Issues that will affect wider EU

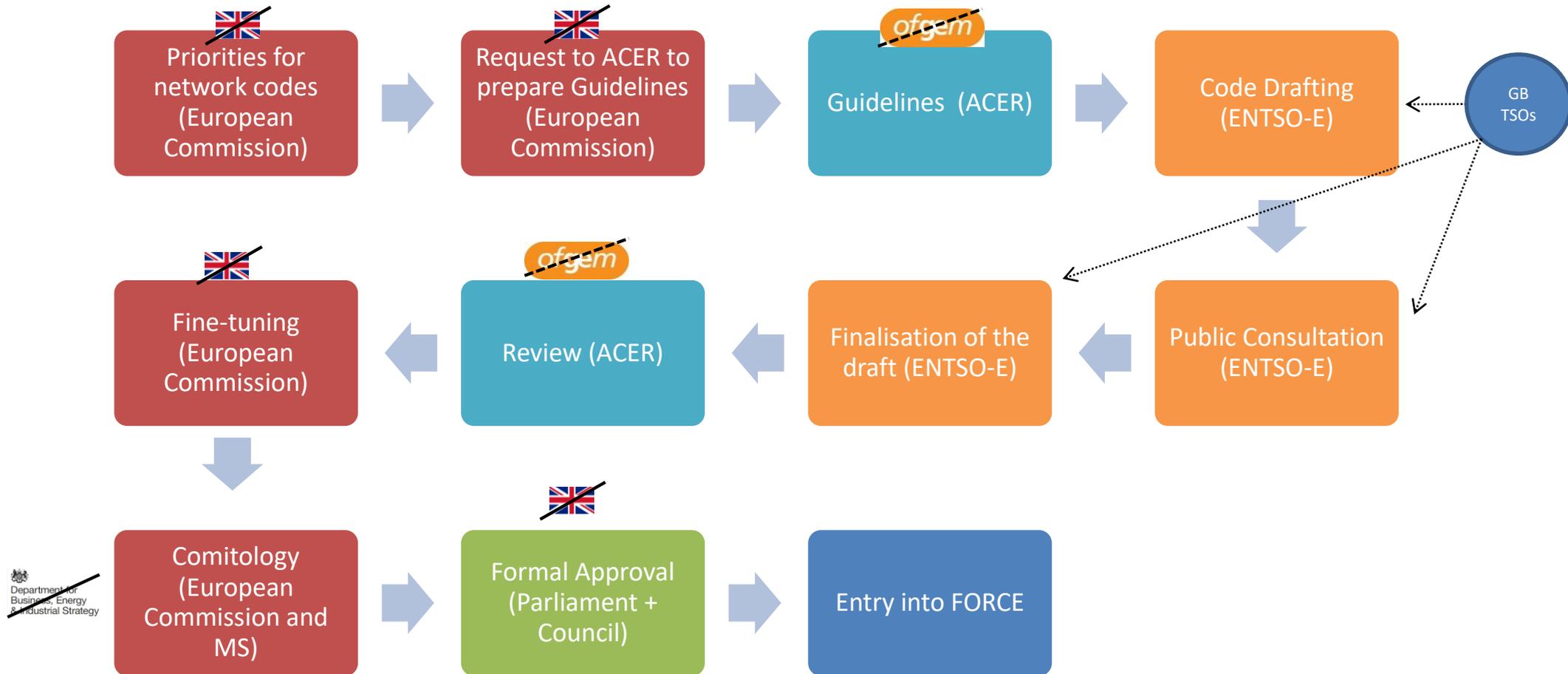
- Interconnectors and market coupling
- Ireland
- Emissions Trading Scheme
- Future of Euratom
- Energy Security

Interconnectors and Market Coupling

- UK interconnectors total 3GW, to Ireland and France
- UK plans to increase interconnection to meet EU objectives, lower UK market prices and increase system flexibility, enabling greater use of variable renewables
- Interconnectors require funding and regulatory approval ‘at both ends of the wires’
- Development of interconnections is a physical indicator of direction of UK market
- Effective use of interconnectors requires market coupling, which is dependent on harmonised market rules

Name	Links to	MW	Completion
Nemo	Belgium	1,000	2019
Eleclink	France	1,000	2019
IFA2	France	1,000	2020
NSN Link	Norway	1,400	2021
Greenlink	Republic of Ireland	500	2021
FAB Link	France	1,400	2022
Viking Link	Denmark	1,000	2022
North Connect	Norway	1,400	2022
Ice Link	Iceland	800 – 1,200	2024
Total		9,500 – 9,900	

Policy takers: Network codes: Decision-making process



- Currently, TSOs of non-EU member states (but who are members of ENTSO-E) have direct influence over drafting of network codes within ENTSO-E (but influence can be limited).
- However, once ENTSO-E submit draft network codes, these can be modified by ACER, European Commission and during comitology process (no presence/influence of non-EU member states/NRA/TSOs).

Island of Ireland

- A Single Electricity Market (SEM) operates across the whole of Ireland. It is jointly regulated and operated by the two jurisdictions.
- Move toward greater interconnection: the new Integrated Single Electricity Market (ISEM) with EU & network code compliance
- Huge investment in NI-RoI electricity interconnection to facilitate single market
- Consideration given to electricity connection to France
- Shared use of the EU and IEA required gas and oil storage infrastructure

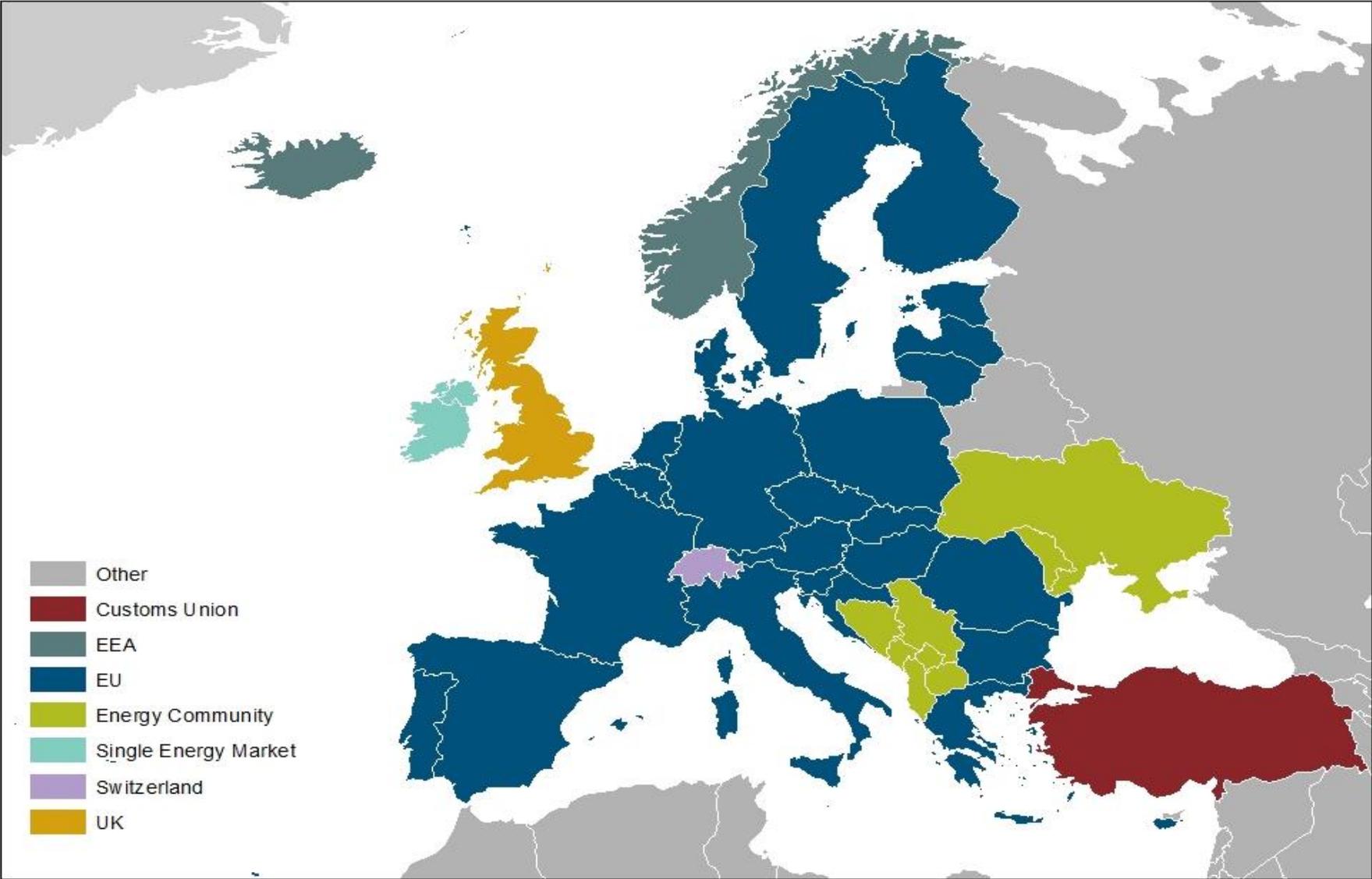
ETS and ESD

- ETS has 31 members: EU member states, plus Norway, Iceland, Liechtenstein which joined at 2nd Phase
- Support for remaining in ETS – not overwhelming – but reform needed
- The ECJ has jurisdiction over the ETS which may rule out UK participation
- Linked systems - Switzerland: technical talks completed in January 2016, but start delayed due to issues around immigration.
- UK leaving Emissions system, will remove 349 mt CO₂e of emissions reductions from the system and either lead to recalculation of Effort Sharing Decision or could be used to retire ETS emissions.

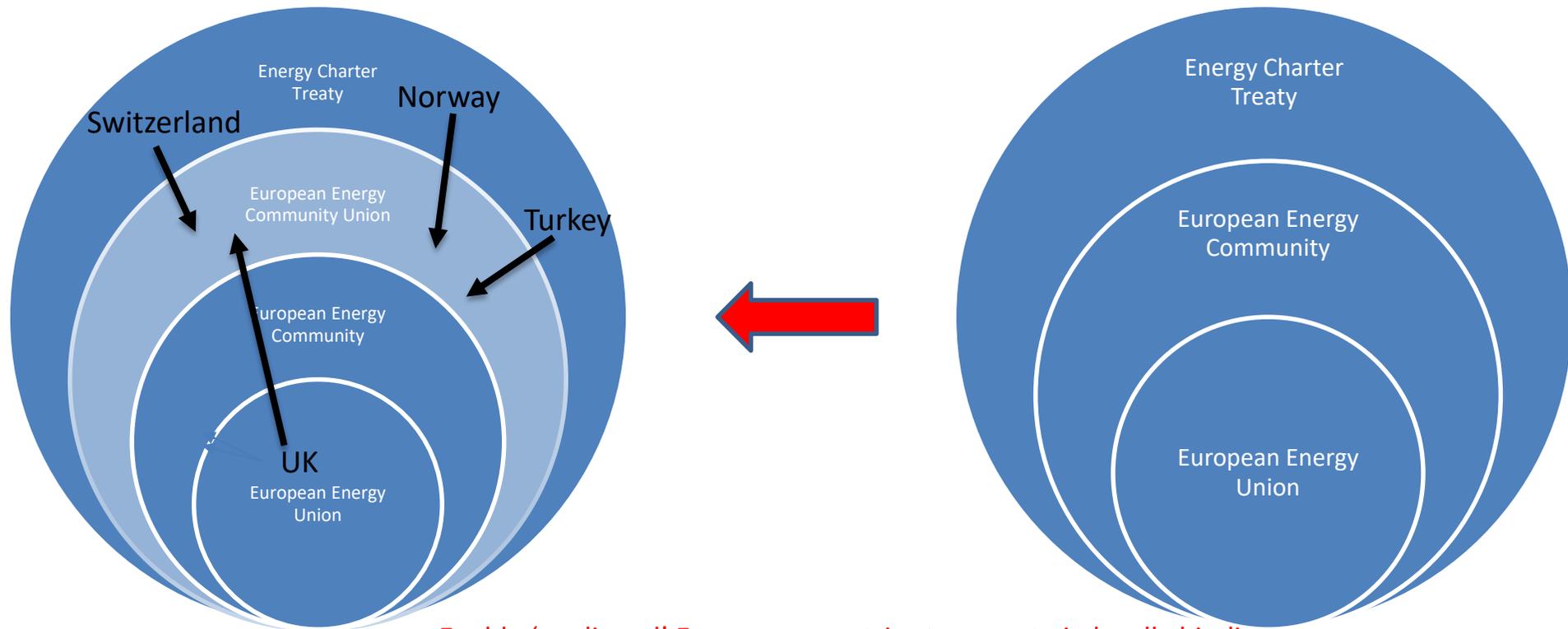
Brexatom Considerations



Existing UK/EU energy relationships



A Reformed and Enlarged Energy Community



- Enable 'unaligned' European countries to operate in legally binding multilateral framework
- Widen influence of European energy acquis
- Strengthen energy sectors in Community countries
- Create continental vision for Energy Union
- Reduce risks, via strengthening sectors in transit countries, for energy producers and consumers

Conclusions

- **Special deal on energy possible:** While the UK will not seek to be part of the Single Market, the extent of access to the Internal Energy Market remains unclear
- **Recognising jurisdictions:** Conforming with EU energy acquis and new form of regulatory oversight (either ECJ supervision or new UK-EU dispute settlement body).
- **Increasing interconnection:** The intention, pre-Brexit was to treble interconnection between the UK and other member states. Full economic benefits of these may require adoption of existing and future market and environmental acquis. The UK will have less influence on the setting of market rules
- **Ireland as special case:** Strong economic and security of supply case from continuation of intertwined regulation and infrastructure
- **Remaining part of the ETS:** may require compliance with EU energy acquis and possibly ECJ jurisdiction/common dispute settlement mechanism; consideration therefore should be given to creating a linked emissions trading scheme.
- **Brexitom:** Leaving Euratom will be complicated and probably expensive for the UK and has budgetary implications for, particularly, EU fusion, research.
- **Opportunities for new era of pan-European energy co-operation:** The inclusion of the UK in a stronger and wider neighbourhood policy initiative could strengthen energy transformation across the continent.

Thank you

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